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SUBJECT: ROKG VIEWS ON ROK-CHINA-JAPAN FTA

Classified By: Economic Minister Counselor Gregory Burton.
Reason: 1.4(B) and (D).

¶1. (C) Summary: In trilateral meetings held in Korea the week of January 25, director general level officials from the ROK, Japan, and China agreed to launch a joint study on the feasibility of an FTA among the three nations. ROK working-level officials hailed the decision as "courageous" and, despite the challenges and risks, hoped the study could lead to trade talks in 2012. More senior officials were cautious, noting sensitivities in agriculture, autos, and other sectors. End Summary.

¶2. (C) Director General Ahn told Economic Minister Counselor that the director general-level meetings held the week of January 25 in Seoul set the terms of reference for the joint FTA study that had been agreed by the Leaders last October in Beijing. The first meeting to begin the study will be held in April and will take place in Korea. Participants will be from government, industry, and academia with leadership at the Vice or Deputy Minister level. Three meetings are planned for 2010.

¶3. (C) ROK working level officials were somewhat surprised by the leaders' "courageous" decision last October to proceed, Kim Jin-wook, Director of MOFAT's FTA Policy Planning Division, told Deputy Economic Counselor on February 12. He said the three governments had studied the FTA at the academic level since 2003, on the basis of a 2002 agreement among the leaders, but few seriously thought an FTA would be at all feasible, especially given the failure of bilateral efforts among the countries to reach trade agreements. However, China's rapid growth and the development of a new mindset that emphasized economic growth over ideology could overcome historical animosities and friction. Further, according to Kim, the leaders saw the potential for the ROK to play a role in facilitating discussions between Japan and China. Kim said the hope was that, despite the clear challenges, the ROK-China-Japan FTA would be similar in scope and quality to the KORUS and EU FTAs. Trade talks could begin after the study concludes in 2012.

¶4. (C) China's growth presents not only an opportunity for the ROK, Kim said, but also a significant challenge. Korea needed to protect itself from being overwhelmed by the much larger economies of China and Japan. He said it was the classic case of the "minnow swimming between two whales." Already, China has emerged as the ROK's largest trading partner. Trade dependence on China is over 20 percent, growing from less than three percent in 1991. Korea had to proceed with great caution to avoid overdependence. Nevertheless, there was significant enthusiasm for the possibilities for opening up markets among the three countries.

¶5. (C) Kim also noted the geo-strategic possibilities of the discussions. Reflecting that the ROK-China-Japan trilateral meetings spun off from the ASEAN plus 3 structure, Kim also

speculated that a ROK-China-Japan FTA, or even the discussions preliminary to such an agreement, could serve as the basis for new regional architecture. However, he questioned whether such a grouping would be well-received in Washington. Kim stressed that discussions were still in their early stages and underscored that the KORUS FTA remained the ROKG's top priority.

¶16. (C) In a January 27 discussion with the Ambassador, Deputy Finance Minister Shin Je-yoon, who has led the ROKG on the Japan-China-Korea ASEAN plus Three cooperation, said it would take time to work through very sensitive sectors such as agriculture and autos.

Comment

¶17. (C) The ROKG has implemented a strategy of securing FTAs with many of its trading partners to give itself a market edge and open its domestic markets. The ROKG plays a bridging role between China and Japan in discussions including all three countries. Given that the strategy is in many ways designed to maintain Korea's competitiveness vis-a-vis its two larger neighbors, the initiation of the FTA study is surprising. Nonetheless, the initiative was agreed at the leaders' level in 2009 and officials are moving forward. The discussions also provide an alternate strategy to ROK decision makers should the KORUS FTA not be ratified.
STEPHENS